



BellSouth Telecommunications, Inc. 615 214-6301
Suite 2101 Fax 615 214-7406
333 Commerce Street
Nashville, Tennessee 37201-3300

Guy M. Hicks
General Counsel

August 1, 1997

VIA HAND DELIVERY

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

Re: *Universal Service Generic Contested Case*
Docket No. 97-00888

Dear Mr. Waddell:

Enclosed are the original and thirteen copies of BellSouth Telecommunications, Inc.'s Response to Notice of Proposed Schedule and Request for Comments in the above-referenced matter. A copy has been provided to counsel of record.

Very truly yours,


Guy M. Hicks

GMH:ch

Enclosure

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
Nashville, Tennessee**

In Re: UNIVERSAL SERVICE GENERIC CONTESTED CASE

Docket No. 97-00888

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**BELLSOUTH TELECOMMUNICATIONS, INC.'S RESPONSE TO THE
NOTICE OF PROPOSED SCHEDULE AND REQUEST FOR COMMENTS**

BellSouth Telecommunications, Inc. ("BellSouth") hereby files its comments in response to the portion of the Hearing Officer's Notice of Proposed Schedule and Request for Comments that relates to the selection of a model/study for universal service purposes and states the following:

At the prehearing conference held July 28, 1997, each of the parties were provided with the Hearing Officer's Notice of Proposed Schedule and Request for Comments. This Notice set August 1, 1997 as the date by which parties are to file comments regarding the issue of whether the Tennessee Regulatory Authority ("Authority") should develop its own cost study for universal service support or utilize the model to be selected by the Federal Communications Commission ("FCC"). BellSouth urges this Authority to conduct its own cost study to determine the cost of universal service in Tennessee.¹

¹ The Notice stated (p.3, footnote 3) that, in its initial Comments filed July 9, 1997, BellSouth took the position that "the Benchmark Cost Proxy Model or Hatfield Model, as presently designed, would not provide enough information . . . " for universal service purposes. In fact, what BellSouth stated in its comments was that neither of these models currently provide enough information to allow them to be used to set permanent prices for the approximately 250 services and elements offered by BellSouth that must be priced in Docket No. 97-01262. (BellSouth Comments, p. 4). Accordingly, BellSouth submitted cost studies in that docket to support all of the proposed rates. As to the issues in this docket, BellSouth

According to the terms of the FCC's Order, the cost study should be used to calculate the amount of money that Tennessee's telecommunications providers--both incumbent LECs (ILECs) and new entrants--would be eligible to collect from the federal universal service fund to compensate providers for serving the high cost areas of this state. While state regulatory bodies have been invited by the FCC to conduct their own studies, the FCC has declared that it will conduct cost studies as well. The FCC, however, will not select a cost study until well after the August 15, 1997 deadline for states to choose to develop their own studies or to rely on the (presently unknown) results of the FCC's future efforts.

The Public Utility Commission of Texas declared its intent to file its own cost methodology in its Petition for Reconsideration of the FCC's May 8, 1997 Universal Service Order. In doing so, it pointed out the awkward timing of the decision that the FCC has required the states to make: "The logic in this approach is reminiscent of Monty Hall's question: 'Do you want to design your own study, or would you rather use what's behind Curtain Number Two?'"

This observation by the Texas Commission highlights the fact that to accept the cost study that the FCC will later develop is to rely on an unknown process and result as the means to serve the universal service needs of the consumers of Tennessee. This choice of an appropriate cost study, however, is extremely important because it has a direct impact upon the consumers of this state. Put differently, universal service in this State could be adversely affected if the costs of universal service in Tennessee are not accurately determined. For this reason and as more fully outlined below,

believes that the Benchmark Cost Proxy Model (BCPM) best provides the appropriate information

BellSouth strongly recommends that this Authority should notify the FCC by the August 15, 1997 deadline that it intends to conduct its own cost study.

The proposed operation of the federal fund dictates that the fund will be set at a level that reflects the nationwide cost to provide universal service in all states. Telecommunications carriers will pay into the fund based upon their share of interstate revenues. The prices that these carriers charge consumers will reflect the added expense of what these carriers must contribute to the universal service fund. Therefore, all Tennessee consumers of interstate telephone services will pay into the federal fund through the rates that they pay for interstate telephone services. The question is whether consumers in Tennessee will receive their fair share of the benefits from the fund. This question can only be answered affirmatively if the costs of universal service in Tennessee are accurately calculated so that service providers in Tennessee will receive reimbursement from the federal fund sufficient to offset the real costs that they incur when they serve real customers in Tennessee.

If the costs of universal service in Tennessee are not accurately determined for the federal universal service fund, several negative consequences will result. If Tennessee's costs are understated relative to other states, the money that should be coming back to Tennessee will flow to other states. This means that money that Tennessee consumers paid into the fund through the prices that they paid for interstate services--money that should be returned to Tennessee--will instead be exported to other states. In addition, if Tennessee does not get all of the assistance to which it is entitled from the federal fund, the state universal service fund will have to be even

needed to determine the required level of support in Tennessee for universal service.

larger in order to appropriately offset the costs of universal service. Because the state fund will ultimately be funded through the prices that consumers pay for state telephone services, failure to collect the state's fair share from the federal fund will mean that Tennessee's consumers will pay higher rates to fund the state universal service fund.

Moreover, If the model chosen by the FCC severely understates the cost to provide service in Tennessee, no new entrant will be interested in providing service in high cost areas of Tennessee because there will be no way for the new entrant to recover its actual costs. The only way to attract competition to the state's high cost rural areas -- given that current prices are below the true cost of providing the service -- is for there to be an opportunity for the new entrant to recover some of its costs from the universal service fund. If the true costs are understated, and the potential draw from the universal service fund does not comport with reality, it is clear that no competitor will be interested in serving high-cost rural areas. Similarly, if the ILEC is left with the universal service obligation and cannot be fairly compensated from the federal universal service fund, ILEC customers will ultimately pay the price through higher rates, diminished service, or inadequate investment.

These untoward results can only be prevented by assuring that the federal fund contributes an appropriate amount to support universal service in Tennessee. One of the Authority's primary responsibilities is to protect the consumers of this State. If the Authority leaves the task of determining the cost of universal service to the FCC, then it will have no control over this process, which is so vitally important to Tennessee consumers. If the (presently unknown) cost study/model that the FCC ultimately chooses does not provide an adequate amount of universal service support to this state

based on the actual costs of providing service in Tennessee, then Tennessee consumers will bear the adverse consequences.

All of the above militates strongly in favor of this Authority choosing to select the model that will be used to implement the federal fund in Tennessee. This Authority is uniquely qualified to select a model based upon a knowledge of the actual circumstances and costs of providing service in Tennessee, as well as the needs of Tennessee consumers. No doubt this Authority has both a stronger motivation and a deeper commitment to ensuring that these state-specific factors are considered than would the FCC. Put simply, the task at hand is simply too important to accept, sight unseen, the model that the FCC will develop in the hope that it will be sufficient to meet the needs of consumers. Instead, this Authority should take an active role in this process by selecting the model that it determines to be best for use in Tennessee.

For the reasons stated above, BellSouth recommends that this Authority inform the FCC by August 15, 1997 that it intends to develop its own cost study.

Respectfully submitted,

BellSouth Telecommunications, Inc.

A handwritten signature in black ink, appearing to read "Guy M. Hicks" followed by a large, stylized flourish that resembles "B. B. R." or "B. R.".

Guy M. Hicks
333 Commerce Street, Suite 2101
Nashville, TN 37201-3300
615/214-6301

William J. Ellenberg II
J. Phillip Carver
675 W. Peachtree Street, Suite 4300
Atlanta, Georgia 30375
404-335-0710

CERTIFICATE OF SERVICE

I hereby certify that on August 1, 1997, a copy of the foregoing document was served on the parties of record, via U. S. Mail, postage pre-paid, addressed as follows:

Val Sanford, Esquire
Gullett, Sanford, Robinson & Martin
230 Fourth Ave., N., 3d Fl.
Nashville, TN 37219-8888

James P. Lamoureux
AT&T
1200 Peachtree St., NE, #4068
Atlanta, GA 30367

Guilford Thornton, Esquire
Stokes & Bartholomew
424 Church Street, #2800
Nashville, TN 37219

T. G. Pappas
Bass, Berry & Sims
2700 First American Center
Nashville, TN 37238

Richard M. Tettlebaum
Citizens Communications
1400 16th St., NW, #500
Washington, DC 20036

Vincent Williams, Esq.
Office of the Attorney General
Consumer Advocate Division
426 Fifth Ave., N., 2nd Fl.
Nashville, TN 37243-0500

William C. Carriger, Esquire
One Union Sq., #400
Chattanooga, TN 37402

Dan H. Elrod, Esquire
Trabue, Sturdivant, et al.
511 Union St., #2500
Nashville, TN 37219-1738

Jon Hastings, Esquire
Boult, Cummings, et al.
414 Union St., #1600
Nashville, TN 37219

Henry M. Walker, Esquire
Boult, Cummings, et al.
414 Union St., #1600
Nashville, TN 37219

Dana Shaffer, Esquire
NEXTLINK
105 Malloy Street, #300
Nashville, TN 37201

Richard Cys
Davis, Wright Tremaine
1155 Connecticut Ave., NW, #700
Washington, DC 20036

Daniel M. Waggoner
Davis Wright Tremaine
1501 Fourth Ave., #2600
Seattle, WA 98101-1684

Charles B. Welch
Farris, Mathews, et al.
511 Union St., #2400
Nashville, TN 37219

Hubert D. Dudney
General Manager
Twin Lakes Telephone Co.
P. O. Box 67
Gainesboro, TN 38562

James Wright, Esq.
United Telephone - Southeast
14111 Capitol Blvd.
Wake Forest, NC 27587

Carolyn Tatum-Roddy, Esq.
Sprint Communications Co., LP
3100 Cumberland Circle
Atlanta, GA 30339

Glen B. Sears
General Manager
West Kentucky Rural Telephone Coop.
237 N. 8th St.
Mayfield, KY 42066

W. T. Sims
Manager
Yorkville Telephone Cooperative
Yorkville, TN 38389

Ms. Nanette Edwards
Regulatory Affairs Manager
Deltacom, Inc.
700 Blvd. South, #101
Huntsville, AL 35802

Richard Smith
President
Standard Communications Co.
302 Sunset Dr., #101
Johnson City, TN 37604

Mr. Thomas J. Curran
Director External Affairs
360 Communications Co.
8725 W. Higgins Road
Chicago, IL 60631

Don Baltimore, Esquire
Farrar & Bates
211 7th Ave., N., #320
Nashville, TN 37219-1823

Pam Melton, Esquire
LCI International Telecom
8180 Greensboro Dr., #800
McLean, VA 22102

Sheila Davis
Chaz Taylor, Inc.
3401 West End Ave., #318
Nashville, TN 37203

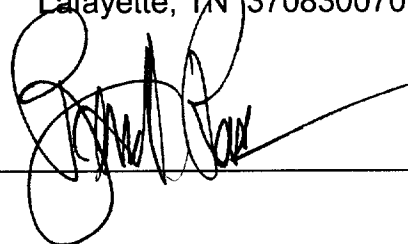
Michael Romano
Mark Pasko
Swidler & Berlin
3000 K. St., NW, #300
Washington, DC 20007-5116

Proctor Upchurch, Esquire
P. O. Box 3549
Woodmere Mall
Crossville, TN 38557-3549

Fred L. Terry
General Manager
Highland Telephone Cooper
P. O. Box 119
Sunbright, TN 37872

D. Billye Sanders, Esquire
P. O. Box 198866
Nashville, TN 37219-8966

F. Thomas Rowland
North Central Telephone. Coop.
P. O. Box 70
Lafayette, TN 370830070

A handwritten signature in black ink, appearing to read 'F. Thomas Rowland', is written over a horizontal line.